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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000453

SIPDIS

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DEPT FOR EEB A/S SULLIVAN; EEB AMB. MANN; EUR DAS BRYZA;
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SUBJECT: TURKEY/NABUCCO: DAS BRYZA URGES COMPROMISE ON
TURKEY-AZERBAIJAN TRANSIT DISPUTE

Classified By: Ambassador Ross Wilson, reasons 1.4 b, d

11. (C) SUMMARY. The Nabucco pipeline is economically feasible as Russia can supply the gas for South Stream only from Turkmenistan, with Nabucco enjoying a forty percent advantage over South Stream in terms of the cost of shipping Caspian gas to Austria, DAS Matt Bryza told FM Babacan March 13. The lack of a Turkey-Azerbaijan transit agreement is slowing Nabucco, and Bryza urged that Turkey and Azerbaijan compromise. There is enough gas in Azerbaijan to satisfy Nabucco, but the United States is working with the Iraqi and Turkmen governments to ensure further supplies. Turkey can help. Iraq has significant gas reserves which could supply Nabucco. While exploiting northern Iraqi energy resources would require passage of the hydrocarbons law, Iraqi authorities believe they can proceed with exporting gas from Anbar province. Turkish support can help Turkmen President Berdimuhamedov recognize his leverage over Russia, which needs Turkmen gas to realize South Stream. Ensuring energy security requires Turkey to pursue diversification while also seeking good energy relations with Russia, according to Babacan. Turkey wants Nabucco to work, but Babacan noted that the large number of countries involved inevitably results in shifting policies and circumstances. Bryza emphasized that, even with Hungary, Bulgaria, and Austria hedging their bets with Russia, there is a political alignment in support of Nabucco. The TU-AJ transit dispute is holding up progress on gas sales/purchase agreements required to secure financing. Babacan took the points but, alluding to Azerbaijan, suggested that in this energy market, it is difficult to make suppliers agree to reasonable terms. Bryza emphasized the urgent need to elevate Turkey's gas transit dispute with Azerbaijan to the political level; Babacan agreed to raise it with PM Erdogan. END SUMMARY.

TURKEY-AZERBAIJAN IMPASSE THREATENS NABUCCO

12. (C) Bryza stressed to FM Babacan and DG for Economic Affairs Kart, as well as, separately, MFA Deputy U/S Cevikoz, Nabucco's economic attractiveness compared to South Stream. Exporting gas to Central Europe makes much more sense through Nabucco. Russian President Putin has recognized the progress made on Nabucco and has launched a counter-offensive against it. South Stream requires Turkmen gas; Russian gas fields on the Yamal Peninsula and in the Barents Sea are years behind schedule. There is enough gas in Azerbaijan to satisfy Nabucco, though not all of it will be ready in time. Bryza

estimated that, comparatively, it would cost forty to fifty percent more to ship Caspian gas to Austria via South Stream than via Nabucco. But the TU-AJ transit dispute is blocking investors from concluding crucial gas sales/purchase agreements with Azerbaijan, holding up Nabucco, and creating space for South Stream.

13. (C) Bryza described opposing pricing and transit schemes favored by Turkey and Azerbaijan. Turkey is seeking to buy 15 percent of the gas transiting Turkey at a netback price while Azerbaijan is seeking a straight transit tariff formula and gas sales to Turkey at the top dollar price Turkey pays Russia. Compromise is needed and only the top Turkish and Azerbaijani political leaders can break this impasse. Bryza noted that Azerbaijani President Aliyev has already suggested a compromise based on a contractual price for an additional volume of gas for Turkey, less than Turkey is paying Russia.

14. (C) Babacan agreed to engage PM Erdogan in resolving the gas transit dispute with Azerbaijan. (PM Foreign Affairs Advisor Davutoglu made the same pledge to Bryza the previous day in Istanbul.) Asked about additional sources of gas to supply Nabucco, Bryza pointed to Turkmenistan and Iraq. Turkmenistan, he said, is nervous about Moscow, but, in fact, has leverage over Russia which needs Turkmen gas to supply South Stream. Turkey can bolster Turkmen President Berdimuhamedov's confidence to commit some gas to Nabucco, through Azerbaijan. Babacan noted that Berdimuhamedov would be in Turkey for an extended, three-to-four day visit in late March and PM Erdogan would work this issue with Berdimuhamedov then. Bryza also pointed to Iraq as a potential supplier, noting that experts believe 13-15 bcm of gas could be produced by Iraq over the next five to eight years. It will be impossible to proceed with developing

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northern Iraqi resources until passage of the hydrocarbons law, but Iraqi officials believe it is possible to start exploiting western Iraqi resources now (these resources are not subject to the same Iraqi regional ownership disputes). Iraq will already begin exporting modest volumes of gas to Syria under pre-existing, Saddam-era contracts, and will then aim to export perhaps 6 bcm via Syria through the Arab pipeline into Turkey. Bryza described this as a modest start; he relayed Iraq experts' analysis at the U.S.-Turkey-Iraq Trilateral Gas Meeting on March 1 that the Iraqi government currently lacks the strategic vision at the political level to plan to expand production further and supply Nabucco. Bryza called for the U.S. and Turkish embassies in Baghdad to work together to help the GOI develop such a vision. Babacan agreed. Bryza also emphasized Azerbaijan's strong desire to export its energy resources westward, even as Russia seeks to buy into Azerbaijani Shah Deniz production.

15. (C) Turkey wants to help India achieve energy diversity and meet its extraordinary energy needs. Babacan told Bryza that Turkey, India and Israel have discussed building a new oil pipeline from Ceyhan to Israel, which would connect to existing Red Sea pipelines, allowing India to purchase oil at a savings compared to the price it currently pays for Middle East oil. Bryza replied that developing Turkey-India-Israel relations is a good idea, and the United States would support the project so long as it is commercially viable.

16. (C) Returning to Nabucco, Bryza stressed the importance of achieving diversity of supply before deepening energy dependence upon Russia, and asked if Turkey could support Nabucco first. Babacan noted the supply disruptions Turkey faced again this winter from Iran after Turkmenistan cut off Iran. The disruptions led Turkey to request additional volumes of gas from Russia, albeit at a very expensive price. Turkey wants energy diversity, but needs a continuous supply from Russia. Turkey is strongly supportive of Nabucco and the Arab gas pipeline. Turkey is also exploring new opportunities with Iran, but only on a purely commercial

basis. The security of Turkey's energy supply is paramount. Babacan described what he saw as an inherent problem with Nabucco: there are too many countries involved. Changing governments and circumstances lead to shifting policies. Bryza underscored the need to maintain political alignment in support of Nabucco, even as Hungary, Bulgaria, and Austria hedge their bets with Russia. The key obstacle right now is the TU-AJ transit dispute, and he urged, once again, a compromise agreement. Babacan empathized with Turkish Energy Minister Guler, noting Turkey will be hosting the largest stretch of Nabucco pipeline and pointing out that Turkey is in the market for gas in its own right. It is sometimes hard to make suppliers agree to reasonable terms, he said.

17. (U) DAS Bryza cleared this cable.

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